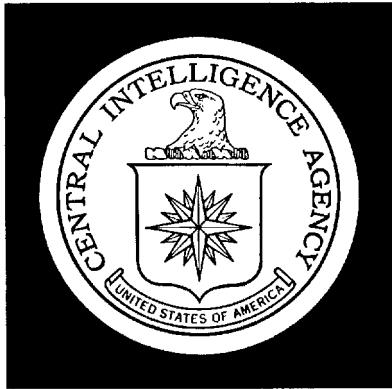


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Secret
50

18 August 1970

25X1

Approved For Release 2003/06/24 : CIA-RDP79T00975A016900100001-3

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No. 0197/70
18 August 1970

Central Intelligence Bulletin

CONTENTS

Cambodia: Communist forces continue to harass government positions in the countryside. (Page 1)

Japan: Labor support for the opposition Japan Socialist Party is likely to decline. (Page 3)

[Redacted]

25X6

Israel: The government will ask for an increase of over \$335 million in the defense budget. (Page 6)

Lebanon: President elected (Page 7)

Mexico: Finance Minister resigns (Page 7)

[Redacted]

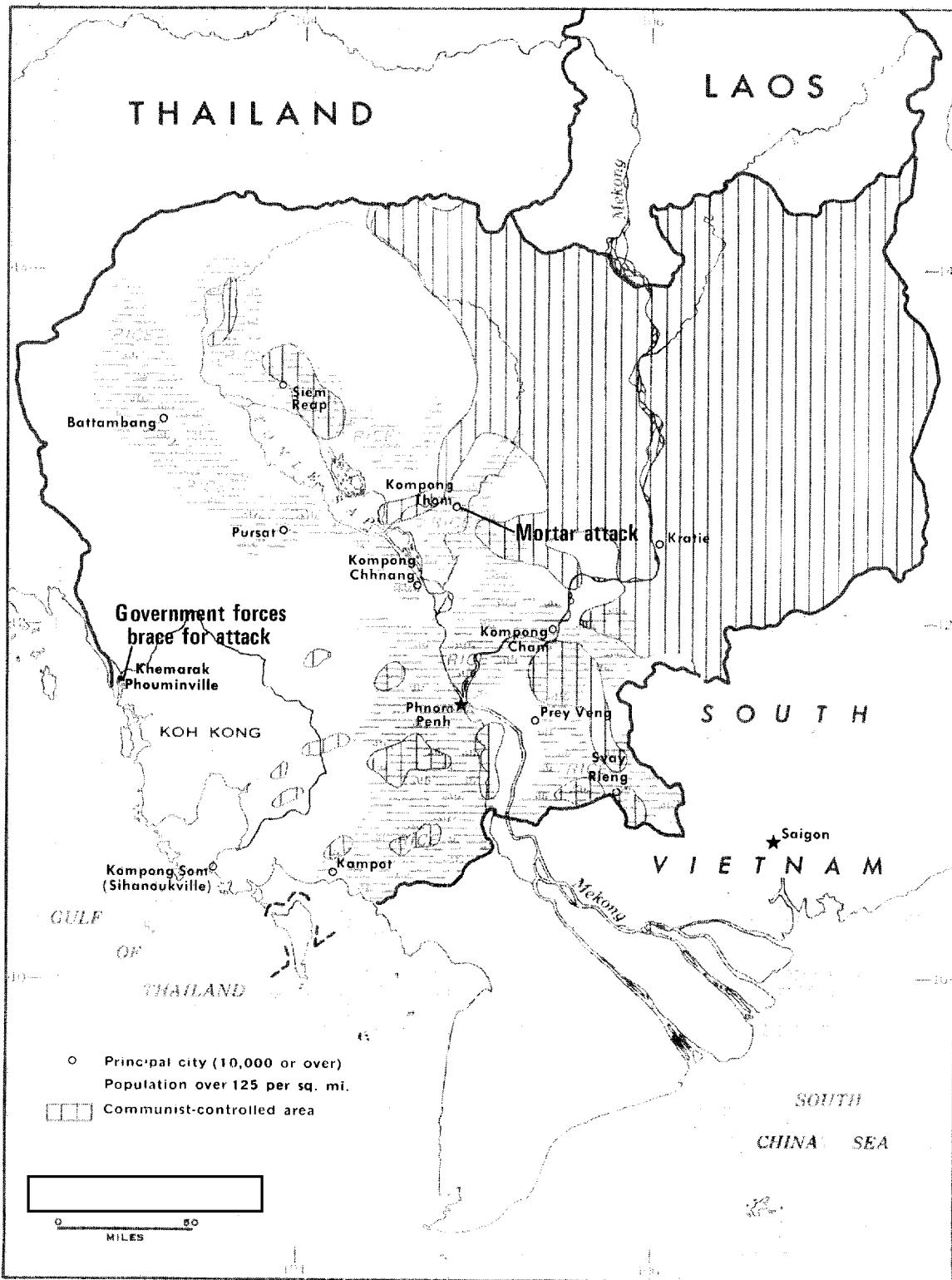
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CAMBODIA: Current Situation



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Cambodia: Communist forces continue to harass government positions in the countryside, but no significant new enemy ground attacks have developed.

Kompong Thom city was again the target of rocket and mortar attacks; three of the city's defenders were killed and 11 others wounded in the latest shelling on the night of 16-17 August. In an effort to buoy the garrison's spirits and to improve the government's image, Prime Minister Lon Nol spent most of 17 August visiting with the city's defenders. The visit was his first to a battlefield area in Cambodia.

Following the seizure of a district capital in Koh Kong Province by Communist forces on 14 August, Cambodian Army commanders believe that an attack against Koh Kong city (Khemarak Phouminville) may be forthcoming. A successful enemy offensive there could facilitate sea resupply of Communist forces operating in southwestern Cambodia.

The situation is quiet near Siem Reap city where Communist forces reportedly were moving in for an attack last week. Substantial enemy concentrations remain in the area, however.

* * * *

The new Ministry of Community Development is preparing to initiate its first project in the Phnom Penh area, but it must overcome such serious problems as uncertain financing, limited manpower, and vague but ambitious goals. The ministry, whose stated mission is "to improve life in the rural areas," evidently has in mind a program resembling the South Vietnamese pacification program. As a first step, it has plans to dispatch teachers and advisers to the capital's outlying areas and to nearby villages by the end of this month. They

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will be tasked with carrying the government's message to the population. The ministry also is planning to maintain contact with people in contested and Communist-controlled areas, and it even hopes to create a guerrilla organization in Communist territory.

Preoccupied with the war and other more pressing problems, government leaders have had little time to devote to countering the Communist presence in the countryside. The establishment of a community development program is evidence that they are now beginning to think ahead to the longer range Communist threat. The lack of trained personnel, scarcity of resources, and inexperience in organizing on the grass-roots level will preclude rapid progress, but the new programs could help stem Communist inroads in the countryside.

25X1

18 Aug 70

Central Intelligence Bulletin

2

SECRET

SECRET

Japan: Labor support for the opposition Japan Socialist Party (JSP) is likely to decline further as a result of new, moderate leadership in Sohyo, the largest labor organization.

Two moderates last week were elected as chairman and secretary general of Sohyo, thus reducing the radical influence that has dominated Japanese labor for many years. Pressure to modify Sohyo's unprofitable relationship with the declining JSP and the current disarray in the radical left forced the two former top leaders to step down.

Further erosion of labor's financial, organizational, and electoral support for the Socialists will make it more difficult for the party to resist major changes in leadership and policies if it wishes to prevent new electoral disasters. The victory of the moderates in Sohyo may well strengthen the hand of moderates in the JSP who are planning an attempt to oust the entrenched radical leftist leadership at the party's convention in the fall.

Pressure for changing Sohyo's ideologically oriented policies has become increasingly apparent in recent months. The rank and file have become more interested in pragmatic economic issues than in joint political struggles with the Socialists, as evidenced by labor's half-hearted participation in the demonstrations against the US-Japan mutual security treaty last spring. The new action policy adopted at the convention includes unprecedented emphasis on highly popular nonideological issues such as pollution, inflation, and inadequate housing, issues that the Socialists are only slowly moving to exploit.

25X1

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SECRET

Israel: The government will ask the Knesset for an increase of over \$335 million in the defense budget for the fiscal year ending in March 1971.

With this increase, defense expenditures would come to more than \$1.5 billion, or some 28 percent of gross national product. Although the official announcement did not specify the uses to which the new allocations would be put, a large portion probably is earmarked for foreign procurement of arms and equipment.

Israel is counting on new foreign loans of about \$220 million to finance the supplementary budget. Concurrently, the government has announced new taxes to raise the equivalent of about \$120 million from Israeli citizens. The announcement specified capital gains taxes, corporate taxes, purchase taxes, and levies on foreign travel, as well as reduced agricultural subsidies. There was no mention of increased income taxes nor any comment on possible currency devaluation.

25X1

25X1

18 Aug 70

Central Intelligence Bulletin

6

SECRET

SECRET

NOTES

Lebanon: Sulayman Franjiyah, a moderate Christian, was elected President yesterday by the Chamber of Deputies. During the final days of the campaign, Franjiyah, a long-time politician who is both pro-Western and pro-Egyptian, was increasingly mentioned as a compromise candidate acceptable to both the Christians and Muslims. Franjiyah's main problems will be the same as those his predecessor faced: how to control the fedayeen and avoid deeper involvement in the Arab-Israeli problem. He will also want to retain Lebanon's traditional pro-Western orientation. [redacted]

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Mexico: Minister of Finance Antonio Ortiz Mena resigned on 13 August after serving in that post through two administrations. He has been replaced by the ambassador to the US, Hugo Margain, one of Mexico's foremost tax authorities. Ortiz gave as his reason for resigning the imminent preparation of next year's budget and his feeling that it should be under the control of someone chosen by President-elect Echeverria, who takes office in December. Margain is friendly with Echeverria and is expected to continue as minister of finance during his six-year administration. [redacted]

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